

# **AUDIT COMMITTEE**

## **POLICY STATEMENT ON INTERNAL**

## **QUALITY CONTROL AND EXTERNAL QUALITY CONTROL REVIEWS**

**APRIL 1997**

### **I. PURPOSE**

To provide policy guidance for members of the President's Council on Integrity and Efficiency on the implementation of the general standard on quality control in the *Government Auditing Standards*.

### **II. BACKGROUND**

1. In January 1986, the PCIE adopted and published *Quality Standards for Federal Offices of Inspector General* (Quality Standards). These standards covered the entire OIG organization and were considered advisory in nature.
2. Subsequently, beginning with the 1988 edition, *Government Auditing Standards* required government audit organizations to have an appropriate internal quality control system in place and undergo an external quality control review.
3. The 1988 amendments to the Inspector General Act of 1978 requires the external quality control reviews to be performed exclusively by an audit entity of the Federal Government, including the General Accounting Office or an Office of the Inspector General.
4. On August 8, 1989, the PCIE's *Policy Statement on Quality Control Reviews* was issued. This provided guidance on the internal quality control systems, internal review programs and general guidance on the PCIE external review process. This policy statement amends and supersedes the August 8, 1989 policy statement.

### **III. INTERNAL QUALITY CONTROL SYSTEM**

1. Each Inspector General organization will implement and maintain an internal quality control system for its audit work. The internal quality control system is the process (i.e., the organizational structure and established policies and procedures) designed to provide reasonable assurance that the organization follows applicable auditing standards in the audits. The nature, extent and formality of the internal quality control system will depend on various factors such as size, location of offices, nature of work and organizational structure.

2. The system should be appropriately comprehensive and suitably designed to provide reasonable assurance that the audit organization (1) has adopted and is following applicable auditing standards and, (2) has established and is following adequate audit policies and procedures. The organization's internal quality control policies and procedures should, at a minimum, encompass the elements of (1) Staff Qualifications, (2) Independence, (3) Audit Performance, and (4) Internal Review. The standards in the 1986 Quality Standards that apply to these elements are as follows:

- a. Staff Qualifications - Assuring Staff Qualifications
- b. Independence - Maintaining Independence
- c. Audit Performance - Directing and Controlling (except the Assessing OIG Accomplishments component) and Auditing
- d. Internal Review - Maintaining Quality Assurance (as supplemented by the guidance in this policy statement)

3. An OIG's internal review or quality assurance program should have the following characteristics:

- a. Review team led by a senior audit manager.
- b. The review leader should report to an individual or a level within the organization that will assure independence and objectivity in the performance of reviews.
- c. The scope of the review will include a determination as to the degree of compliance by the audit organization with the *Government Auditing Standards*, applicable Office of Management and Budget Circulars, applicable PCIE audit policy statements and appropriate statutory provisions applicable to an audit organization.
- d. Competent evidential matter should be gathered and, where applicable, sufficient testing will be accomplished to determine that the audit organization is in compliance with applicable auditing standards, policies and procedures.
- e. Written results should be prepared for each review and, when applicable, will include recommendations for corrective actions.
- f. Written comments should be provided on each recommendation by the official responsible for managing the audit organization reviewed setting forth the corrective actions already taken or the corrective actions proposed to be taken.
- g. Procedures should be established for the resolution and follow up of recommended corrective actions.

h. Some Inspector General organizations do not have an audit staff of sufficient size to fully implement the internal quality control system outlined in III.B and C. above. In such cases, adequate internal controls should be incorporated in the audit process to promote compliance with applicable auditing standards and policies, e.g., supervisory review of working papers, cross-referencing of reports, formal audit programs, etc. In addition, provision should be made for some form of independent review of completed audits. At a minimum, this should include independent referencing of all reports. The elements of the internal quality control system should be set forth in the written policies and procedures of the Office of the Inspector General, together with the justification for using a less extensive system and explanation as to why the alternative controls can be effective for that organization.

i. The written results of the internal quality control reviews and supporting work papers will be made available to external quality control review groups and, on request, to the General Accounting Office.

#### **IV. EXTERNAL QUALITY CONTROL REVIEW PROGRAM**

1. The external review guidelines that follow provide an effective and efficient basis for providing reasonable assurance that audit organizations are complying with applicable auditing standards, policies and procedures.

2. The PCIE has adopted a schedule of assignments for the next several cycles of external reviews (attached). Each Office of Inspector General is responsible for contacting the OIG that is assigned to conduct its external review and make arrangements to schedule the review to meet its due date. The PCIE Audit Committee is responsible for amending the schedule of assignments as circumstances warrant.

3. At a minimum, the objective of the external review will be to determine that the OIG's internal quality control system is in place and operating effectively to provide reasonable assurance that established policies, procedures and applicable auditing standards are being followed in its audit work. The scope of the external review may be expanded to other areas as required, with mutual agreement between the OIG being reviewed and the external review team. Should such mutual agreement be reached, the results of the expanded scope review should be included in the written report.

4. It is recommended that understandings between the reviewed OIG and the external review team concerning the performance of the review should be in writing to avoid any misunderstandings. The memorandum of understanding or other documentation may cover such areas as objectives and scope of review, grade levels of review team, reporting process, facilities and administrative support to be provided, etc.

5. The external review team should be led by a senior audit manager. Reviewers should be qualified and have current knowledge of the type of work to be reviewed and the applicable auditing standards.

6. Reviewers should be independent of the audit organization being reviewed, its staff, and its auditees whose audits are selected for review. An audit organization is not permitted to review the organization that conducted its most recent external quality control review.
7. Except as provided in H. below, reviewers should gain an understanding of the OIG's internal quality control system to properly plan, conduct, and conclude on the objectives of the external review.
8. External quality control review procedures should be tailored to the size and nature of an organization's audit work. For example, an organization that performs only a few audits may be more effectively reviewed by emphasizing a review of the quality of those audits rather than the organization's internal quality control policies and procedures.
9. Reviewers should use sound professional judgment in conducting and reporting the results of the external quality control review.
10. Reviewers should select audits that provide a reasonable cross section of the audits conducted.
11. The review should include a review of the audit reports, working papers, and other necessary documents (for example, correspondence and continuing education documentation) as well as interviews with the reviewed OIG's professional staff.
12. A written report should be prepared communicating the results of the external quality control review.
13. A draft report (and letter of comments, if applicable) should be provided to the Assistant Inspector General for Audit being reviewed for comments on the review findings and recommendations. The final report should be addressed to the Inspector General and include the comments of his/her Assistant Inspector General for Audit.
14. The OIG being reviewed is responsible for the resolution and followup of recommendations for corrective actions.
15. Copies of the final review report and supporting workpapers should be made available to subsequent external review groups and, on request, to the General Accounting Office. Copies of the final review report should also be made available, on request, to the Congress and the public.

Valerie Lau, Chair  
Audit Committee